
MSD Danmark ApS

Havneholmen 25, DK-1561 København V

Annual Report for 1 January - 31 December 2017

CVR No 29 88 37 18

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
25/5 2018

Thomas Weincke
Chairman

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Management's Statement

The Executive Board has today considered and adopted the Annual Report of MSD Danmark ApS for the financial year 1 January - 31 December 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Company and of the results of the Company operations for 2017.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 25 May 2018

Executive Board

Dalya Iskander Gayed
CEO

Christopher John Foreman

Torben Dahl

Independent Auditor's Report

To the Shareholder of MSD Danmark ApS

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of MSD Danmark ApS for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent Auditor's Report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 31 May 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Ulrik Ræbild

State Authorised Public Accountant

mne33262

Thomas Lauritsen

State Authorised Public Accountant

mne34342

Company Information

The Company

MSD Danmark ApS
Havneholmen 25
DK-1561 København V

Telephone: + 45 44 82 40 00
Website: www.msd.dk

CVR No: 29 88 37 18
Financial period: 1 January - 31 December
Municipality of reg. office: København

Executive Board

Dalya Iskander Gayed
Christopher John Foreman
Torben Dahl

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2017 TDKK	2016 TDKK	2015 TDKK	2014 TDKK	2013 TDKK
Key figures					
Profit/loss					
Revenue	571.204	430.347	442.338	694.530	710.725
Gross profit/loss	138.629	141.735	126.394	116.231	128.504
Profit/loss before financial income and expenses	24.439	15.358	15.086	12.658	44.051
Net financials	286	-629	-2.398	-1.881	75
Net profit/loss for the year	17.266	9.214	8.341	5.273	31.668
Balance sheet					
Balance sheet total	213.673	193.466	269.493	446.512	419.845
Equity	49.238	31.972	22.758	29.417	47.803
Investment in property, plant and equipment	0	6.820	0	79	434
Number of employees	119	115	108	114	126
Ratios					
Gross margin	24,3%	32,9%	28,6%	16,7%	18,1%
Profit margin	4,3%	3,6%	3,4%	1,8%	6,2%
Return on assets	11,4%	7,9%	5,6%	2,8%	10,5%
Solvency ratio	23,0%	16,5%	8,4%	6,6%	11,4%
Return on equity	42,5%	33,7%	32,0%	13,7%	26,1%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Key activities

The Company's business is importing and selling pharmaceuticals to treat patients within acute hospital care, diabetes, cardio-vascular diseases, hepatitis, oncology, antibiotics, HIV as well as vaccines.

Development in the year

In 2017 the overall revenue grew by 33%. The growth was primarily driven by Keytruda, which was launched in Lung cancer during 2017, and by new vaccines business in MSD Denmark. Vaccines were previously sold by the SPMSD Joint Venture, which was terminated during 2017 and MSD Denmark got the MSD-vaccines and Sanofi kept the Sanofi-vaccines. The overall result for 2017 was above expectations and Management concludes that the result was very satisfying.

Knowledge Resources

MSD Denmark is a knowledge intensive company, which employs 120 skilled and dedicated employees. Approximately 85% of employees are specialists with specific knowledge in research, development, sales and marketing of Human therapeutics.

Special Risks

The Company is not exposed to particular operational risks or risks relating to financial matters.

Research

Clinical research is an important part of MSD Denmark's strategic plan, and Global Clinical Trial Organization (GCTO) is MSD's clinical research department. On a worldwide scale, GCTO runs clinical research in nearly 50 countries, and GCTO Denmark is one of the country's largest clinical trial departments making MSD Denmark one of the international pharmaceutical companies which invest most in clinical research in Denmark. Annual investments in research amount to approximately DKK 69 million.

Management's Review

Public/private partnerships

Through our diversity of leading treatments, MSD has far-reaching engagements with the Danish health care system and provides an expertise deeply rooted in our scientific legacy. It is our wish and strategy to engage in partnerships and form alliances to find innovative solutions that meet the needs of patients and face the challenges of health care systems. Therefore, we have entered and will continue to enter into public and private partnerships with the purpose of supporting research and improving public health in Denmark.

An example is MSD Denmark's engagement in the NEXT Partnership, a public private partnership established in 2014 that envisions Denmark as a world-class country of choice for early clinical testing of new medicine in patients which will strengthen early clinical research in Denmark, and provide Danish patients early access to novel medical therapy.

Another example is MSD Denmark's partnership with Copenhagen University and Danish Capital Region, which focuses on improving clinical research and public health in the Region. The partnership was established in 2014, and will in the coming three years continue to focus on two primary objectives: focus on contributing to the transfer of results from the research lab to the clinic; and increased public health via strengthened public/private co-operation.

Statement of corporate social responsibility

MSD Denmark is part of Merck & Co., Kenilworth, New Jersey, and as such, also of the overall Corporate Responsibility policies of Merck & Co., Inc. MSD Denmark contributes to the global policies for Environmental Sustainability; Human Rights and many other areas as found on the Global Web sites: www.msдресponsibility.com and www.merckformothers.com.

At local level, MSD Denmark's Corporate Responsibility strategy is put into practice through:

Partnership with the Danish NGO Maternity Foundation with the aim of reducing maternal mortality

In 2012, MSD launched a global, 10-year, USD 500 billion initiative with the objective to reduce maternal mortality. Maternal mortality is the 8th of the 15 Millennium Goals set by the UN with the objective of reducing poverty, and the goal which has made the least progress to date. MSD Denmark is actively involved in MSD for Mother via our partnership with the Danish NGO Maternity Foundation, which works to save mothers' and newborns in Sub-Saharan Africa.

A key milestone in the partnership has been the launch of the Safe Delivery App; an innovative Health tool based on mobile technology, which trains and helps health workers in remote areas to deal with the most common complication in relation to childbirth.

In addition, focus has been on the development of a roll-out strategy for the Safe Delivery App. The initial aim has been to reach more than 10,000 health workers with quality training by 2017, and expand from there. With this Maternity Foundation hope is to ensure that 1 million women will give birth with a better skilled birth attendant.

Management's Review

Volunteerism

All employees have the opportunity to participate in volunteer work for up to 40 hours yearly. In 2017, the main objective was to support the work of Maternity Worldwide, mentioned above, through fundraising and awareness activities.

Ethical standards

MSD Denmark strives through professionalism and innovation to ensure that we are – and remain – a credible and relevant partner for stakeholders in all of our therapeutic areas; whether it regards doctors, patient associations, healthcare authorities or others. MSD Denmark's policy of collaboration with stakeholders follows Pharmaceutical Industry Associations "Ethical Guidelines". MSD Denmark is also part of the pharmaceutical industry association lobby codex.

Statement on gender composition

The Extended Danish Leadership Team consists of five women and seven men. The Managing Director of MSD Denmark is female.

Equality in MSD Denmark's management levels

MSD Denmark has implemented an equal opportunities policy to all levels of management within the company. The policy is an addition to the personnel policy and sets targets for gender equality at all levels of management with employee responsibility. In 2017, the company was not underrepresented at any level of management. MSD Denmark considers recruitment, training and development as important to continue to ensure equality in the company at management levels.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Expected development

The Company expects its revenue in 2018 to be 10-15% above the result for 2017. Keytruda, vaccines and new launches will ensure the sales growth. The expectation is that the EBIT and EBITDA margins will remain at the same level as the margins in 2017.

Income Statement 1 January - 31 December

	Note	2017 TDKK	2016 TDKK
Revenue	1	571.204	430.347
Other operating income		2.758	3.533
Expenses for raw materials and consumables		-371.673	-208.870
Other external expenses		-63.660	-83.275
Gross profit/loss		138.629	141.735
Staff expenses	2	-111.206	-122.561
Depreciation and amortisation		-1.551	-2.487
Other operating expenses		-1.433	-1.329
Profit/loss before financial income and expenses		24.439	15.358
Financial income	3	2.022	787
Financial expenses	4	-1.736	-1.416
Profit/loss before tax		24.725	14.729
Tax on profit/loss for the year	5	-7.459	-5.515
Net profit/loss for the year		17.266	9.214

Balance Sheet 31 December

Assets

	Note	2017 TDKK	2016 TDKK
Other fixtures and fittings, tools and equipment		5.011	5.975
Leasehold improvements		5.874	6.461
Property, plant and equipment in progress		0	320
Property, plant and equipment	6	10.885	12.756
Other receivables		3.273	3.375
Fixed asset investments	7	3.273	3.375
Fixed assets		14.158	16.131
Inventories		0	6.869
Trade receivables		156.768	112.908
Receivables from group enterprises		38.456	50.019
Other receivables		728	735
Deferred tax asset	8	717	264
Corporation tax		0	4.938
Prepayments		882	929
Receivables		197.551	169.793
Cash at bank and in hand		1.964	673
Currents assets		199.515	177.335
Assets		213.673	193.466

Balance Sheet 31 December

Liabilities and equity

	Note	2017 TDKK	2016 TDKK
Share capital		1.601	1.601
Retained earnings		47.637	30.371
Equity	9	49.238	31.972
Other provisions	11	3.830	337
Provisions		3.830	337
Trade payables		23.412	37.905
Payables to group enterprises		101.669	94.672
Corporation tax		2.460	0
Other payables		33.064	28.580
Short-term debt		160.605	161.157
Debt		160.605	161.157
Liabilities and equity		213.673	193.466
Distribution of profit	10		
Contingent assets, liabilities and other financial obligations	12		
Related parties	13		
Fee to auditors appointed at the general meeting	14		
Accounting Policies	15		

Statement of Changes in Equity

	Share capital TDKK	Retained earnings TDKK	Total TDKK
Equity at 1 January	1.601	30.371	31.972
Net profit/loss for the year	0	17.266	17.266
Equity at 31 December	1.601	47.637	49.238

Notes to the Financial Statements

1 Revenue

Geographical segments has not been specified in accordance with section 96(1) of the Danish Financial Statement Act, as the Company only operates in one geographical segment with one activity being the sales of pharmaceuticals.

	2017 TDKK	2016 TDKK
2 Staff expenses		
Wages and salaries	118.318	127.144
Pensions	11.391	11.305
Other social security expenses	1.303	1.507
Recharged costs	-19.806	-17.395
	111.206	122.561
Including remuneration to the Executive Board	4.323	6.252
Average number of employees	119	115

MSD Danmark ApS's ultimate Parent Company Merck & Co., Inc. has established equity-settled, share-based payment arrangement (stock option and "Restricted Stock Units" programmes), which include the employees of MSD Danmark ApS. At the time the employee exercises the stock option MSD Danmark ApS is invoiced by the ultimate Parent Company, while the cost regarding "Restricted Stock Units" alone are borne by the ultimate Parent Company. The potential liability for outstanding stock options that are not recognised in the balance sheet amounts to DKK 2,420k (2016: DKK 4,947k) based on the share price at 31 December 2017.

3 Financial income

Interest received from group enterprises	72	0
Exchange adjustments	1.950	787
	2.022	787

4 Financial expenses

Interest paid to group enterprises	55	204
Other financial expenses	86	227
Exchange adjustments	1.595	985
	1.736	1.416

Notes to the Financial Statements

	2017 TDKK	2016 TDKK
5 Tax on profit/loss for the year		
Current tax for the year	7.621	613
Deferred tax for the year	-453	3.509
Adjustment of tax concerning previous years	291	1.393
	7.459	5.515

6 Property, plant and equipment

	Other fixtures and fittings, tools and equipment TDKK	Leasehold improvements TDKK	Property, plant and equipment in progress TDKK
Cost at 1 January	6.746	7.244	320
Disposals for the year	0	0	-320
Cost at 31 December	6.746	7.244	0
Impairment losses and depreciation at 1 January	771	783	0
Depreciation for the year	964	587	0
Impairment losses and depreciation at 31 December	1.735	1.370	0
Carrying amount at 31 December	5.011	5.874	0
Depreciated over	3-10 years	5-10 years	

7 Fixed asset investments

	Other receivables TDKK
Cost at 1 January	3.375
Disposals for the year	-102
Cost at 31 December	3.273
Carrying amount at 31 December	3.273

Notes to the Financial Statements

	2017 TDKK	2016 TDKK
8 Deferred tax asset		
Deferred tax asset at 1 January	264	3.774
Amounts recognised in the income statement for the year	453	-3.509
Deferred tax asset at 31 December	717	264
Property, plant and equipment	143	-80
Other provisions	-860	-184
Transferred to deferred tax asset	717	264
	0	0
Deferred tax asset		
Calculated tax asset	717	264
Carrying amount	717	264

The recognised tax asset comprises deferred tax expected to be utilised within the next three to four years. In connection with the assessment of the utilisation of the tax asset, special emphasis has been placed on the Companys ability to generate profit, and expect to do so in the future.

9 Equity

The share capital consists of 1,601 shares of a nominal value of TDKK 1,601. No shares carry any special rights.

10 Distribution of profit

Retained earnings	17.266	9.214
	17.266	9.214

Notes to the Financial Statements

	2017 TDKK	2016 TDKK
11 Other provisions		
Other provisions consists of obligations related to repurchasing sold goods, where the company is obliged to repurchase the goods upon expiry.		
Other provisions	3.830	337
	3.830	337

12 Contingent assets, liabilities and other financial obligations

Contingent liabilities

Rental and lease commitments comprise rent of premises and lease of vehicles and amounts to DKK 32,531k. (2016: DKK 42,964k)

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable by the Group amounts to DKK 4,723k. Moreover, the Danish group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

13 Related parties

	Basis
Controlling interest	
Merck & Co., Inc. 2000 Galloping Hill Road Kenilworth NJ 07033 USA	Ultimate parent company
MSD Human Health Holding B.V. Kloosterstraat 6 5349 AB, Oss Netherlands	Controlling shareholder
Other related parties	
Dalya Iskander Gayed	Executive Board
Christopher John Foreman	Executive Board
Torben Dahl	Executive Board

Transactions

With reference to section 98 C(7) of the Danish Financial Statements Act, related parties transactions have not been disclosed in the Annual Report.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company Merck & Co., Inc.

The Group Annual Report for Merck & Co., Inc may be obtained at the following address:

Merck & Co., Inc.
2000 Galloping Hill Road
Kenilworth NJ
07033 USA

www.merck.com

Notes to the Financial Statements

	2017 TDKK	2016 TDKK
14 Fee to auditors appointed at the general meeting		
Audit fee to PricewaterhouseCoopers	320	320
Other services	60	60
	380	380

Notes to the Financial Statements

15 Accounting Policies

The Annual Report of MSD Danmark ApS for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2017 are presented in TDKK.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Merck & Co., Inc, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Notes to the Financial Statements

15 Accounting Policies (continued)

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Income Statement

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have been made before year end.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment and mark-up on the Company's research activities.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Notes to the Financial Statements

15 Accounting Policies (continued)

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with Danish group enterprises. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings ect.	3-10 years
Leasehold improvements	5-10 years

Impairment of fixed assets

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount. This impairment test is performed on an annual basis for development projects in progress irrespective of any indication of impairment.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Fixed asset investments

Fixed asset investments consist of deposits.

Notes to the Financial Statements

15 Accounting Policies (continued)

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale equals landed cost.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Notes to the Financial Statements

15 Accounting Policies (continued)

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Notes to the Financial Statements

15 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$